

8/27/01

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

In the Matter of:

CITGO PETROLEUM CORPORATION

COMPLIANCE AGREEMENT

The United States Environmental Protection Agency (EPA) and CITGO Petroleum Corporation (CITGO) hereby enter into the following agreement regarding compliance by CITGO with the requirements of Clean Air Act (CAA) section 211(k) and the regulations promulgated thereunder at 40 CFR Part 80, subparts D, E and F.

BACKGROUND

1. CAA section 211(k) requires EPA to promulgate regulations regarding the manufacture and use of reformulated gasoline (RFG). RFG regulations appear at 40 CFR Part 80, subparts D, E and F, and require use of RFG in certain ozone nonattainment areas (covered areas) beginning January, 1995.
2. Section 80.41 specifies the standards for RFG, including the standards for VOC emissions performance. Section 80.78 requires that RFG represented by refiners, distributors and retailers as VOC controlled must meet the applicable VOC emissions performance standards (VOC standards), and that during the period May 1 through September 15 each year only RFG that meets the VOC standards for the proper VOC-Control Region may be distributed to retail outlets, except that for adjusted VOC gasoline sold in the Chicago and Milwaukee RFG areas the per-gallon minimum is 21.4% emissions reduction.
3. Under § 80.70 the Chicago, Illinois, and Milwaukee, Wisconsin, metropolitan areas are RFG covered areas. Under § 80.71 the Chicago and Milwaukee covered areas are in VOC-Control Region 2. Under § 80.41(f) the per-gallon minimum VOC standard for RFG used in VOC-Control Region 2 is 23.4% emissions reduction.
4. Section 80.2(kk) defines reformulated gasoline blendstock for oxygenate blending, or RBOB, as a petroleum product that becomes RFG on the addition of oxygenate. Essentially all RFG used in the Chicago and Milwaukee areas is produced by blending RBOB with the oxygenate ethanol at truck loading terminals.
5. The primary gasoline property that affects VOC emissions performance is the gasoline's Reid vapor pressure (RVP), a measure of how easily the gasoline evaporates. VOC

controlled RFG typically has an RVP value of about 7 pounds per square inch (psi), whereas RFG that is not VOC controlled typically has an RVP value of 11 psi or greater.

6. CITGO historically has produced RBOB for distribution in the Chicago and Milwaukee areas at a refinery located in Lemont, Illinois. According to CITGO, this refinery is owned by PDV Midwest Refining LLC, a wholly owned subsidiary of CITGO's parent company, PDV America, Inc.

7. CITGO has represented to EPA that a fire occurred in the crude oil processing unit at the Lemont refinery on August 14, 2001, and that as a consequence of this fire the distillation tower at the Lemont refinery experienced a structural failure on August 17, 2001. These events caused the refinery to shut down. CITGO will be unable to process crude oil at the Lemont refinery until the damage from the fire is repaired, but CITGO will continue to evaluate opportunities to operate other downstream processing units.

8. CITGO has further represented that the Lemont refinery historically produced about 35 to 37 thousand barrels per day (MBPD) of RBOB, which results in about 38 to 40 MBPD of RFG for the Chicago and Milwaukee RFG covered areas. CITGO estimates this RFG represents about twenty percent of the total RFG used in the Chicago and Milwaukee areas.

9. CITGO has further represented that it has taken all reasonable steps to mitigate the supply problem caused by the Lemont fire, by purchasing from other refiners the maximum possible volume of RBOB that meets the VOC standards, but that the volume CITGO has been able to obtain is inadequate to meet the demands of marketers supplied by CITGO in the Chicago and Milwaukee areas. In consequence, beginning about September 1, 2001, CITGO will be unable to supply sufficient RBOB to terminals in Chicago and Milwaukee to meet the needs of marketers, which could result in some retail stations being unable to supply gasoline to consumers.

10. CITGO has further represented that it has been able to obtain about 600,000 barrels of RBOB that meet the standards for RBOB that is not VOC controlled, and that the maximum RVP of this product is 9 psi. This product will begin arriving in the Chicago and Milwaukee areas approximately September 1. If this product were distributed to gasoline terminals during this period it would significantly improve the supply situation during the final two weeks of the VOC control season.

11. For these reasons, CITGO has requested that EPA allow it to distribute in the Chicago and Milwaukee areas, before September 15, RBOB that does not meet the VOC standards.

AGREEMENT

12. CITGO may produce or obtain RBOB for use in the Chicago and Milwaukee areas that does not meet the applicable VOC standards, and may sell, transfer and distribute RFG produced using this RBOB, from the date of this agreement until the end of the current VOC control period at midnight on September 15, 2001. Other regulated parties, including distributors

and retailers, may distribute and sell RFG obtained from CITGO during this period. CITGO shall identify any RFG that does not meet VOC standards that is sold, transferred or distributed under the terms of this Agreement as "EPA approved Non-VOC RFG," in lieu of the product transfer documentation required at § 80.77(g)(1)(i).

13. CITGO agrees to comply with all other provisions of the RFG regulations during this time period, including all RFG standards other than the VOC standard for gasoline identified as "EPA approved Non-VOC RFG." For purposes of calculating compliance with any RFG standards that are met on average, CITGO may treat "EPA approved Non-VOC RFG" distributed under the terms of this Agreement as non-VOC controlled RFG.

14. CITGO shall supply as much RBOB as feasible that meets VOC standards during the period of this Agreement.

15. The RVP of any RBOB produced or obtained by CITGO under this Agreement shall be 9 psi or less. Furthermore, CITGO shall take all reasonable steps to minimize the RVP of any RBOB used to produce "EPA approved Non-VOC RFG," and before September 16, 2001, CITGO may not blend butane or pentane with this RBOB or "EPA approved Non-VOC RFG." CITGO shall submit a report to EPA by November 30, 2001, that demonstrates compliance with the requirements of this paragraph. This report shall be submitted to the address listed in paragraph 21.

16. CITGO shall only transfer "EPA approved Non-VOC RFG" at the following terminals operated or leased by CITGO, unless CITGO obtains prior approval from EPA to use additional terminals:

CITGO Lemont, Illinois
CITGO Des Plaines, Illinois
CITGO Mt. Prospect, Illinois
CITGO/Exxon-Mobil Jointly Owned Terminal in Milwaukee, Wisconsin
Premcor Blue Island, Illinois

17. EPA and CITGO agree that in the event CITGO is unable to obtain adequate supplies of RBOB with a maximum RVP of 9 psi, as described in paragraph 14, but is able to obtain RBOB with a higher RVP, CITGO may request modification of this Agreement in order to determine the terms and conditions that would be necessary for EPA to agree to allow CITGO to supply the additional product.

18. CITGO shall pay to the United States of America an amount equal to the economic benefit CITGO receives as a result of selling "EPA approved Non-VOC RFG" instead of fully compliant RFG. This economic benefit shall be calculated as the volume of "EPA approved Non-VOC RFG" transferred from terminals for distribution to retail outlets, in gallons, calculated by grade on a daily basis. The per-gallon economic benefit for these gallons, by grade, shall be the daily differential between the Mean Pipeline Price for VOC controlled RBOB and the Mean Pipeline Price for 9.0 RVP Conventional gasoline for Chicago, as reported by Platts. For any day Platts is not published the most recent prices reported by Platts shall be used.

19. CITGO shall submit a report to EPA by November 30, 2001, that includes the volumes of "EPA approved Non-VOC RFG" transferred from terminals for distribution to retail outlets, by day and by grade, under the terms of this Agreement. This report also shall include the total amount of economic benefit received by CITGO, calculated according to the procedure described in paragraph 18. This report shall be submitted to the address listed in paragraph 21.

20. CITGO agrees to pay the amount calculated under paragraph 18 by November 30, 2001, by cashier's check or certified check, with the notation "CITGO Compliance Agreement," payable to the "United States of America," and mailed to:

U.S. Environmental Protection Agency
Washington Accounting Operations
P.O. Box 360277M
Pittsburgh, Pennsylvania 15251
Attention AED/MSEB - CITGO Compliance Agreement

A copy of this check shall be forwarded to the address listed in paragraph 21.

21. Any reports required by this Agreement shall be submitted to the following address:

Bruce C. Buckheit, Director
Air Enforcement Division
Mail Code 2242A
U.S. Environmental Protection Agency
1200 Pennsylvania Avenue, N.W.
Washington, DC 20460

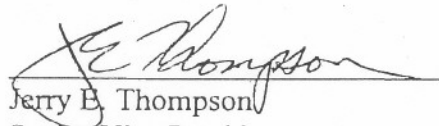
ENFORCEMENT

22. This Agreement does not preclude any action by EPA to address past or future violations of the CAA or regulations promulgated thereunder that are not specifically authorized by the terms of this Agreement

23. CITGO agrees that until December 31, 2002 it will maintain, and make available to EPA upon request, all information relating to its purchase, sale and distribution of gasoline under this Agreement.

24. If CITGO violates the terms of this agreement it becomes subject to penalties for violations of 40 CFR Part 80.

By CITGO Petroleum Corporation:


Jerry E. Thompson

Senior Vice President

Development and Technological Excellence

8/27/01
Date

By the U.S. Environmental Protection Agency:


Bruce C. Buckheit

Director

Air Enforcement Division

8/27/01
Date